

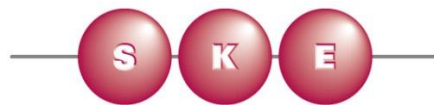
# The perspectives of Australian stakeholders on the business case for Integrated Reporting

## Draft Discussion Paper

Prepared by a sub-group of the Business Reporting Leaders Forum (BRLF)\* in Australia

April 2011

\*Note BRLF is a voluntary group which includes observers and participants from key Australian government departments, regulatory and professional bodies, investors, analysts, corporate CFOs (G100), accounting firms, academics and experts in ethics, sustainability, governance and civil society. This draft discussion paper has been prepared by representatives of the BRLF, has been discussed at a full meeting of the BRLF on 4 February 2011, and will be subject to further discussion on 11 April 2011. This version has been updated to include the perspectives of directors, the public sector and a summary of areas on stakeholders' consensus and areas of contention.



Society for Knowledge Economics

## Introduction

The International Integrated Reporting Committee's (IIRC) remit is to create a globally accepted framework for accounting for sustainability: a framework which brings together financial, environmental, social and governance (ESG) information in a clear, concise, consistent and comparable format – put briefly, in an integrated report. The intention is to help with the development of more comprehensive and comprehensible information about an organisation's total performance, prospective as well as retrospective, to meet the needs of the emerging, more sustainable, global economic model.

*"The goal of the IIRC is not to increase the reporting burden on companies and other entities. Rather, it is to help them and all their stakeholders make better resource allocation decisions. All of us have a stake in a sustainable society. While integrated reporting alone cannot ensure sustainability it is a powerful mechanism to help us all make better decisions about the resources we consume and the lives we lead."* **Ian Ball, CEO of the International Federation of Accountants and Co-Chair of the IIRC Working Group**

The IIRC's first phase is to develop a Discussion Paper setting out a framework, overarching concepts and guiding principles, under which the future of corporate reporting can evolve. Once this Discussion Paper is agreed by various global stakeholders, the objective is to present it to the G20 Finance Ministers in October 2011, followed by the G20 leaders in November 2011, for consideration and potential adoption as the way forward for transparent and business-useful reporting.

## Australian Response

The Society for Knowledge Economics (SKE) is a not-for-profit, established in Australia in June 2005 as an initiative of the Australian Government Consultative Committee on Knowledge Capital. SKE's vision is to position Australian workplaces as the most innovative, productive and fulfilling in the world. Through collaboration and cross-sectorial initiatives supported by industry, academia, policy makers and thought leaders, SKE is focused on developing workplace leadership capabilities.

In line with this vision, SKE has undertaken a number of collaborative projects focusing on better management, monitoring and reporting by organisations on their use and development of intellectual capital and other intangible assets e.g. *Australian Guiding Principles on Extended Performance Management (2005)*.

With a mandate to promote broad based business reporting, SKE has convened a relevant multi-stakeholder group to provide an Australian perspective, and support the IIRC. This group is called the Australian Business Reporting Leaders Forum's (BRLF) and has a core purpose of:

***'Collaborating with Australian stakeholders and global initiatives to promote and drive the development and implementation of an integrated business reporting framework, which reduces complexity, is strategy-aligned, and enables efficient allocation of capital and improved performance.'***

The BRLF has also been working closely with the Worldwide Intellectual Capital Initiative (WICI). Over the last two years, WICI has developed a holistic strategy-centric business reporting framework, early days XBRL taxonomies (for efficient electronic data sharing) and emerging sector-

specific KPI libraries. WICI is now working with the IIRC towards development of a single global solution.

To support the work of the IIRC, the BRLF has already delivered to the IIRC a Australian 'Landscape Review' that provides an overview of the regulations, standards, frameworks and guidance in place in Australia of relevance to integrated reporting and the implications for the IR framework.

### **Program of work**

The IIRC Working Group is starting to develop a conceptual framework and guiding principles for integrated reporting (IR) for inclusion in the Discussion Paper. The IIRC's objectives for an integrated reporting framework are to:

- Support the information needs of long-term investors, by showing the broader and longer-term consequences of decision-making
- Reflect the interconnections between environmental, social, governance and financial factors in decisions that affect long-term performance and condition, making clear the link between sustainability and economic value
- Provide the necessary framework for environmental and social (including work health & safety) factors to be taken into account systematically in reporting and decision-making
- Rebalance performance metrics away from an undue emphasis on short-term financial performance, and
- Bring reporting closer to the information used by management to run the business on a day-to-day basis.

Therefore as an initial step and input to the development of the framework, principles and Discussion Paper, the BRLF has summarised perspectives from certain key Australian stakeholders on the 'business case for integrated reporting', namely:

1. Investment Community
2. Directors
3. CFO Community
4. Public Sector
5. Other Stakeholder Community (i.e. Governance & Civil Society experts).

This paper sets out stakeholder perspectives on the business case for integrated reporting, the likely challenges as well as the priority issues that each of these stakeholder groups believes must be addressed in developing the integrated reporting framework, principles and Discussion Paper.

Although this paper focuses on listed public corporations, long term equity investors and public sector - the challenges, issues raised and required outcomes are also applicable to private companies and not-for-profit entities and their owners, financiers and providers of capital.

There are several requirements of integrated reporting consistent across all stakeholders, and a number of areas of contention which need to be addressed through the IIRC Discussion Paper process. These are summarised in *section i* below, and discussed further in subsequent sections.

As the IIRC develops the framework and produces draft Discussion Papers, the BRLF will use this initial thought-piece as a checklist to ensure key issues raised have been addressed, or the reasons why not have been clearly explained.

**i. Summary of common perspectives on the business case for integrated reporting across the various stakeholder groups, as well as areas of contention requiring further work.**

In developing this paper, the various stakeholders share common perspectives on the opportunities and challenges arising from integrated reporting, as well as identify areas of contention. These areas of contention should be areas of focus, and addressed by the IIRC in developing the G20 Discussion Paper and IR framework. Both are summarised in the table below:

<b>Common perspectives</b>	<b>Areas of contention</b>
<p>Areas where stakeholders have similar perspectives in the business case for integrated reporting:</p> <ul style="list-style-type: none"> <li>• Align financial and non-financial (ESG) reporting to strategy and strategic objectives, linking ESG performance to the financials</li> <li>• Include relevant and material financial and non-financial (ESG) information, including performance information/ KPIs</li> <li>• Better align internal and external reporting</li> <li>• Focus on how changing market and other business risks and opportunities are being addressed in future strategy and business model – the IR framework should not be prescriptive, but rather predictive</li> <li>• Develop a globally accepted principles-based ‘if not, why not’ type IR framework, that is suitable for public as well as private organisations</li> <li>• Apply rigorous and consistent definitions (i.e. materiality) measurement methodologies and accountability mechanisms that can be applied universally</li> <li>• Focus on the longer term sustainability of the organisation, including how the organisation impacts on the environment and society</li> <li>• Report candidly, focus on material issues and no marketing gloss or cherry-picking of non-financial performance information</li> <li>• Design the IR overarching framework for general practice across all sizes and types of organisations, without ignoring industry and sector specificities</li> <li>• Reduce the burden of reporting; and avoid making the integrated report too long and detailed</li> <li>• Allow for innovation and experimentation in reporting, and avoid inflexible regulation</li> <li>• Encourage good practice, and the better use of technology for reporting</li> <li>• Undertake research, monitor progress and provide education to demonstrate and articulate the benefits of integrated reporting to key stakeholders Avoid an IR framework that meets at the ‘lowest common denominator’ and drives ‘tick a box’ reporting.</li> </ul>	<p>Areas where stakeholders have some divergence in opinions or concern, and require careful debate and dialogue:</p> <ul style="list-style-type: none"> <li>• Quantification of non-financial (ESG) performance metrics</li> <li>• Level of disclosure (especially around what is ‘defined’ as confidential or commercially sensitive information; as well as increased segmentation of information)</li> <li>• Corporates want to minimise cost of reporting through IR; whereas other stakeholders are more focused on the cost/usefulness of what is reported to the stakeholders – is the IR information reported relevant and material to their various information needs?</li> <li>• Tension between achieving comparability of the non-financial information reported and better alignment between internal and external reporting</li> <li>• Level of involvement of ‘stakeholders’ in the development of what is material and relevant for IR, and the scope of reporting to include ‘total sphere of influence’ in the IR (i.e. supply chains)</li> <li>• Clarification of strategy to mitigate any increased personal risk for directors and officers through harmonised safe harbour or broad business judgement rules if the organisation publishes a broader suite of integrated information</li> <li>• Role of regulation to mandate minimum non-financial (ESG) reporting and assurance requirements</li> <li>• Clear guidance on how the IR framework will fit within individual countries corporate governance framework, tax &amp; corporate laws</li> <li>• Consideration needed as to whether special provisions are required for public sector organisations, whose focus is on social value created (as well as economic accountability, environmental responsibility and ethical delivery).</li> </ul>

## 1. Investors perspectives on the business case for integrated reporting

### Drivers of change

In setting out the business case for an integrated approach to the reporting of Financial and Environmental, Social and Governance (ESG) performance<sup>1</sup>, it is important to establish the **drivers** of increasing consideration of ESG. These include:

- The role of the asset owners in promoting ESG and the associated United Nations Principles for Responsible Investment (PRI). The leadership shown by the Australian asset owner signatories to the PRI is 'pushing down' on the rest of the funds management sector. Given the pool of superannuation funds in Australia (the fourth largest in the world) their perspective is certainly worthy of consideration.
- A genuine belief and an increasing amount of research that shows ESG consideration produces superior returns.
- Regulatory changes both on investors themselves and companies. For example the introduction of carbon markets creates real demand for environmental performance reporting.

### Challenges for investors

As more investors commit to mainstream consideration of ESG issues in their investment selection processes, they face a number of challenges relating to information flows, including a lack of:

- Usable information on a company's ESG performance, as current sustainability reports are targeted at stakeholders other than investors
- Information from many mid to smaller companies
- Consistent data year on year (in content and approach) and lack of consistency in definitions across the sector
- Candour and relevance in disclosure. (Sustainability reports are presented in a "marketing" style, and do not necessarily address the key issues that are the most material to company, as well as the investors.)
- Standardised methodologies for calculation of complex metrics and setting of boundaries (e.g. regulatory requirements which focus on local boundaries for companies with international operations).

### What investors want from integrated reporting, and why.

Investors want integration and standardisation of financial and ESG reporting as it will bring a rigour and consistent measurement of ESG performance as it relates to current financial results and future financial prospects. Integrated reporting by its very definition should make the links between ESG issues and business strategy clearer giving a fuller picture to investors.

Statutory financial reporting obligations mean that investors have access to audited financial data to compare performance and assess risks across companies. ESG information can be used to signal material risks too, and investors need a standardised reporting framework for ESG reporting in order

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<sup>1</sup> Through further discussion at the BRLF, the investment community uses the term 'ESG' to cover the organisation's performance in material and relevant non-financial areas (potentially beyond Environmental, Social and Governance'). Investors are concerned and want to better understand material strategy-aligned risks and opportunities, and how management have addressed them to date, and will continue to address them into the future.

to assess those risks. Standardised reporting could be achieved through a range of mechanisms, from legislation through to share market listing rules or voluntary industry codes. But without clear guidance for ESG reporting, companies are likely to continue to report information that is not directly useful for investors.

Investors would also like to see the relevance of ESG issues to the business and operations presented more clearly through integrated reporting. By communicating ESG performance against objectives in the context of traditional financial performance and even linking ESG performance to traditional financial performance, we hope that companies will both better manage some of the longer term risks and opportunities for their business, and as a result protect and enhance long term financial performance.

It should be noted that when mainstream investors analyse the ESG performance of a company, they are not doing so to take a moral or ethical view on the company. They will not typically 'screen out' a company from the investment universe because of the ESG issues associated with their industry e.g. tobacco companies. Mainstream investors want to:

- Get insight into the risks for the company
- Understand how these risks are being managed, and
- Understand what growth opportunities the company may have.

By analysing ESG performance, investors will also gain insight into the efficiency of operations. Ideally investors would have access to reporting that disclosed:

- An articulation of the business strategy and the key strategic drivers, and how ESG issues could impact the company's ability to deliver on its strategy
- A description of the most relevant ESG issues for the company and the time frame of any potential impact
- The governance process in place for managing ESG issues (e.g. which ESG issues are managed by risk, strategy, the Board or operational management) alongside financial issues
- Information on whether, and how externalities are identified, measured and potential liabilities estimated (in the event that regulation were to internalise that cost in future)
- Relevant performance data to demonstrate the progress and success (or otherwise) of the approach e.g. energy use, work health & safety performance. (This should include the data points that are the most meaningful for the company and ideally would be reported consistently year on year and across companies in the same sector to enable cross company comparisons. ESG performance data should ideally be verified and related back to strategic drivers and key risks and opportunities. Reference should be made to the best practice reporting standard e.g. the Global Reporting Initiative)
- A discussion around materiality and how ESG issues are being managed
- Quantification where possible of the relevant ESG metrics and potential financial impacts
- Forward looking discussion on how ESG issues are going to be managed and how these issues may impact the forward looking financial statements of the company
- Identified future ESG regulatory risks which could impact the balance sheet (e.g. through asset impairment)
- A simple concise summary of the key ESG issues without the marketing gloss.

In summary investors want access to data and information that would allow them to better understand the ESG and financial performance of a company and hence to make more informed investment decisions.

## 2. Directors perspectives on the business case for integrated reporting

### Introduction

The key driver behind the move towards Integrated Reporting is said to be the need to provide a holistic view of a business enterprise, focusing on the financial, environmental, social and governance frameworks (**ESG**) in order for key stakeholders to make economic decisions.

Globally much work has been done to align international accounting standards, which form the basis of reporting of the annual financial statements; however at present that task is incomplete. There is increased focus on developing a robust global framework to align ESG, with the International Integrated Reporting Committee (**IIRC**) driving forward this body of work. Their goal is to create a framework that brings together the varying reporting requirements in a *'clear, concise, consistent and comparable format'*, which will *'support transition to a more sustainable global economy'*.

The vision of the IIRC in principle has all the elements to drive forward Integrated Reporting; however the global realities in applying this vision may limit its success given the challenges identified.

Non-executive directors are the gatekeepers of governance and provide the link between the shareholders and the management of the entity. Below are some of their views on the above.

### What should Integrated Reporting provide users?

- Concise, simple and focused reports that identify the material business risks that an entity faces, how that entity manages those risks and how they determine their success in managing those risks.
- A principles-based, non-regulatory “if not, why not” styled approach that allows entities to report on issues that are relevant to their business and allows directors to apply their collective expertise in managing the strategic objectives of the entity.
- A framework that reduces the reporting burden on an entity and provides relevant and reliable information that is useful to the key stakeholders of an entity.

### The key challenges in achieving an Integrated Reporting framework and accompanying guidance:

- Need to understand, recognise and provide for varying jurisdictional and pre-existing business reporting requirements, for example listed entities within Australia are required to disclose information on a continuous basis to the market any price sensitive information.
- Potential for increased regulatory supervision requirements, as many entities are required to comply with multiple regulators and regulations.
- Potential to significantly increase the cost burden of compliance for entities, through the need to engage with subject matter experts to assist in the preparation of disclosures, increased audit costs for external auditors or other 3<sup>rd</sup> party accreditation organisations to verify the disclosures; increased investment in information technology to record and maintain information for inclusion in disclosures.
- Increased expectation that directors can realistically take responsibility for these disclosures, especially in large complex corporations and the consequent impact on directors' liability. Given that globally directors' liability differs from country to country, there is a need to provide a robust strategy on how to address liability issues, whether this is through the provision of a globally accepted and harmonised safe harbours or a broad business judgement rule.



- Need to acknowledge that certain information within an entity provides a strategic and competitive advantage and should not be required to be disclosed.
- Increased focus on the audit committee and the procedures undertaken by this committee in its relationship with the external auditors in providing external assurance on the disclosures.
- Increasing the compliance load on directors has the potential to reduce the time available for them to provide strategic guidance about business performance, for the benefit of the stakeholders.
- A risk that the framework and accompanying guidance result in boilerplate disclosures within industries, thus defeating the main aim of Integrated Reporting.
- The additional complexities that face multinational entities, both in terms of compliance with an Integrated Reporting framework should global consensus not be obtained, but also with respect to the varying governance frameworks within the countries in which they operate.
- Constricting the ability of smaller business to potentially access capital markets.

#### Priority issues:

- Setting robust **materiality criteria**. Developing a clear definition of materiality is critically important to the success of developing the Integrated Reporting framework.
- Identifying the **types of entities** that would apply an Integrated Reporting framework. As International Financial Reporting Standards (**IFRS**) identified a need for “IFRS for SME’s” there is the risk that the framework would require a similar carve-out for SME’s.
- Ensuring **global consistency**, which we note has not been achieved for financial reporting under IFRS.
- Ensure that the framework addresses the **directors’ liability** issue.
- Providing guidance on how the Integrated Reporting framework would fit within individual countries corporate governance framework, tax and corporate laws.
- Determining the **cost/benefits and implementation implications** for entities and their shareholders.

Encompassing all the above within a principles-based, non-regulatory, “if not, why not” style framework that recognises the diversity of business, encourages innovation and promotes entrepreneurial activity.

### **3. CFO's perspectives on the business case for integrated reporting**

#### **Introduction**

The current approach to business reporting is focused on the financial performance of the entity with an emphasis on the stewardship of the shareholders' investment and compliance with a diverse and extensive range of regulatory requirements. This approach does not necessarily provide insights of the overall performance of a company in terms of the implementation of its strategy, management of its business risks and performance prospects. It does not explain the company's engagement with society including its governance and its impact on sustainability and social issues.

Progressive companies currently issue reports, such as an operating and financial review/management discussion and analysis, that provide a comprehensive review of their activities (including both financial and non-financial aspects), performance and business model and/or prepare separate reports on sustainability and social impacts and issues. Such reporting is evolving but it is not general practice and nor is it standardised.

#### **The objectives of integrated reporting**

From a CFO's perspective the objective of integrated/comprehensive reporting needs to support the following:

- Better meet the information needs of shareholders and other users by providing them with more holistic/comprehensive information about the business strategy, business risk, business performance and future prospects to enhance their decision making about their investment and allocation of capital in a cost effective manner
- Better communication with shareholders and other users about its business model and performance across the whole value chain of the company
- Potentially contribute towards market participants adopting a longer term view of the performance, prospects and business model of a company
- Provide a framework and guidance whilst not inhibiting flexibility to adapt and experiment with forms of reporting to best communicate with shareholders and other users.

The benefits of integrated reporting to a company need to be clearly demonstrated and articulated by its key mainstream stakeholders, not just specialised ESG bodies. For this to occur, markets need to show that "truth" in reporting does not lead to short term value erosion, particularly when the long term strategy and message is clear and well supported.

#### **Challenges for integrated reporting**

From a CFO's perspective, integrated/comprehensive reporting presents the following risks:

- Ensuring that competitive advantages are not eroded and the need to avoid the disclosure of prejudicial and commercially sensitive information
- Avoiding information overload and the risk that the report will be too long and detailed and obscure reporting of key items and analysis
- Overbearing and inflexible regulation which impedes experimentation and evolutionary development of approaches to, and the content of, reporting and results in a further compliance exercise that imposes significant additional cost burdens
- Lack of acceptance by shareholders because benefits do not justify any additional costs involved.

## **What CFO's want from integrated reporting**

To be successful, an integrated reporting framework should:

- Report the strategy, performance in implementing the strategy, and insights into performance in such a way that shareholders and other users can understand for the purpose of enhanced decision-making
- Seek to align internal and external reporting measures where possible (subject to competitive advantage risks outlined above) and report material and relevant information to meet specific needs of shareholders and other users. It must avoid duplication and not report financial and non-financial measures just for compliance sake. Better alignment of internal and external reporting measures may lead to greater consistency of messaging to shareholders and other users
- Reduce the complexity (and volume) in reporting, including financial reporting, by reducing the burden on a company's time and resources and not add to the cost burden of reporting
- Be mindful of changes in financial reporting requirements, not just focus on ESG reporting measures
- Focus on the key financial and non-financial performance indicators and drivers of corporate performance in accordance with strategy and the business model, and avoid overemphasis on items/issues that are not material, relevant and mainstream
- Initially be non-mandatory (principles-based guidance), not subject to formal regulation and focus on encouraging good practice.

## 4. Public Sector perspectives on the business case for integrated reporting

### Introduction

The Global Reporting Initiative (GRI) has characterised the nature of the public sector as:

*'significant employers, providers of services, and consumers of resources, public agencies also have a major impact on national and global progress towards sustainable development ... [and] are expected to lead by example in reporting publicly and transparently on their activities to promote sustainability' (GRI 2005, pp.7-8).*

The GRI Sector Supplement for Public Agencies states public agencies should report for the following reasons:

*'Promote transparency and accountability; Reinforce organisational commitments and demonstrate progress; Serve as a role model for private sector; Improve their internal governance; Highlight the significance of its role as a consumer and employer in various economies; Meet disclosure expectations and make information available to facilitate dialogue and effective engagement with stakeholders.'* (GRI, 2005, p. 8)

### What the public sector wants from integrated reporting

Progress towards integrated reporting has resulted from criticism that the traditional financial reporting framework gives an incomplete account of a public sector organisation's activities as it precludes and externalises information about an entity's social and environmental actions and performance. Traditional financial accounting has treated environmental goods (for example, air and water) as being in infinite supply and free, with the consequence that the use or abuse of the environment is not reflected in accounting performance indicators such as "profits", or, generally, in the creation of value.

Additionally, traditional financial accounting ignores many social costs that an entity might have imposed upon the community within which it operates. Therefore there is a need to develop alternative approaches to reporting environmental, social and governance (ESG) issues, especially in the public sector that integrates or evolves the current financial accounting and reporting framework in the public sector.

Whilst previous literature has primarily explored "what" organisations report, there is still a lack of discussion into "why" organisations should report. Thus a key aim of this discussion paper is to provide a detailed business case for why we need integrated reporting of environmental, social and governance (ESG), with financial issues in the public and other sectors.

### Challenges for integrated reporting in the public sector

There are several challenges identified for integrated reporting in the public sector:

- No agreed upon and specific definition for 'sustainability' exists and therefore confusion regarding non-financial and ESG factors and integration with financial and economic factors. There are numerous, nebulous terms that have different meanings for different stakeholders so the development of rigorous and **consistent definitions** that can be applied universally is critical. Lack of formal accountability mechanisms means doubt as to the appropriate methods of ESG

accounting and reporting and this holds in the public sector. Failure to meet the needs of a widening group of stakeholders beyond “traditional” stakeholders, such as customers, capital providers, shareholders, and now includes employees, environmentalists etc. Thus, the development of rigorous and consistent **measurement methodologies** and **accountability mechanisms** are critical.

- Public sector has been a late starter in sustainability and integrated reporting and disclosure is fragmented (See Guthrie and Farneti 2008). Despite attempts in transferring approaches tailored for the private sector to the public sector, there are difficulties, challenges and requirements for an integrated reporting framework that meets the **specific needs** of public agencies. The public sector is not driven purely by economic returns; it depends, amongst other things, on the delivery of public policy. Public policies should be driven not only on financial, but also social value.

## 5. Other Stakeholders perspectives on the business case for integrated reporting

### Introduction

Sustainable, responsible business practice advocates that the real costs and obligations of business and organisational activity are accounted for - both financial and non-financial, and require a process of accountability, transparency and comparability through:

- Reflection on actual business impacts, risks and opportunities
- Integrated and inclusive management processes
- Integrated reporting on these practices in the public domain via a multi-stakeholder approach to management, measurement and monitoring, leading to
- Resilience through transparency, trust, adaptability and innovation. <sup>2</sup>

We believe:

- A new globally accepted integrated accounting framework would bring together financial, environmental, social and governance information in a clear, concise, consistent and comparable format.
- Business strategy needs to better link sustainability risks and opportunities with financial risks and opportunities in order to develop more comprehensive and comprehensible information to all stakeholders about an organisation's total performance, now and into the future. Short and long term sustainability strategy needs to underpin business decisions and actions.
- A globally accepted framework for integrated financial and non-financial reporting is necessary for the efficient and equitable use and development of resources both now and into the future.
- Current accounting frameworks over allocate attention towards short term financial performance, often ignoring crucial factors such as: innovation and the development of intellectual capital; formation of long term alliances and relationships; efficient use of rapidly depleting resources and waste minimisation; responsible development of people, ensuring people's health & safety is not compromised at work, and removal of inequities and any human rights abuse in operations and supply chains. Factors, which when correctly understood and analysed, represent significant current and future opportunities and risks to communities, businesses, economies and societies.

### Key business benefits and measures of success include:

- Greater access for all stakeholders to information that is clear, concise, consistent and comparable to assist in making short and long term decisions about interactions with a company
- Improved engagement of stakeholders by companies, specifically in decision making and communication feedback loops - the reporting process
- Improved transparency and accountability through the closer alignment between internal and external reporting by companies
- Transformative change - greater understanding and conviction by companies to embedding ESG into core business strategy
- Better allocation of shared resources, including human capital, financial capital and ecological capital; through the international adoption of a single reporting framework

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<sup>2</sup> <http://thehub.ethics.org.au/what/>

- An agreed integrated reporting framework could help address businesses' lack of certainty on how to engage with the sustainable business practice agenda, and the confusion around initiatives of engagement and reporting (i.e. DJSI, CRI, FTSE4Good etc)
- An integrated reporting framework has the opportunity to assist the convergence of existing financial and non-financial reporting frameworks, into internationally recognised and comparable taxonomies (such as XBRL and semantic technologies) for a range of reporting purposes (e.g. for the investment community, annual reporting, employee and other stakeholder communication).

### **Up-front issues to be addressed**

- Ensure early and ongoing engagement of a diverse range of stakeholders including (but not limited to) non-government organisations, consumers, trade unions, government and citizens through an authentic approach to the stakeholder engagement process - a process that can be as valuable as the information output itself
- Meet the information needs of this diverse range of stakeholders by providing them with more transparent, comprehensive, accessible, timely, relevant and decision useful information on the total (financial and non-financial) performance of a company
- Enhance the scope of the content to reflect not only the assets of the company, but also the total sphere of influence of a company, including along supply chains and in assets of significant ownership
- Present both the positive and negative performance of a company in a balanced and decision useful manner
- Provide a meaningful balance between narrative and quantitative data
- Present material information that demonstrates a link between strategic financial and sustainability decisions
- Provide a framework that gives due regard to organisations both large and small, public and private that may be interested in integrated reporting
- Address the disconnect between current ESG reporting practices of business and the investment community assigning market value to non-financials
- Ensure global relevance through G20 and world trade and economic forums
- Acknowledge competing agendas and work to find common ground.

### **The risks of developing a standard international integrated reporting standard include:**

- Creating a 'lowest common denominator' framework that stalls innovation and becomes a 'tick the box' activity
- Lack of consideration for or involvement of stakeholders, other than the investor
- Losing material sustainability information due to fear of 'publishing too much'
- "The accountants taking over the world" – a fear of many that integrated reporting will mean a reduced engagement of practitioners skilled in key areas of sustainability (such as human rights, climate change, water allocation etc.); leading to poorer reporting and reporting processes being used in key sustainability areas
- There is a temptation to bolt-on sustainability reporting to current financial reporting frameworks, which could simply preserve old economic and business models that are grounded in unsustainable practices. There is the need to reassess current systems, particularly with regard to the measurement and reward of economic growth in a world with finite resources, a growing population and stressed ecosystems
- In a rapidly changing world and business environment it will be critical to maintain an awareness of emergent issues. Rather than prescriptive, an integrated reporting framework will need to be predictive.

It is hoped that with the development of an internationally acceptable integrated reporting framework, responsible business practice will continue its journey into mainstream business practices. Through this companies will be able to incorporate broader interests from multiple stakeholders together with long-term decision-making with more forward looking disclosure that links environmental, social and governance issues into business strategy and risk management; that is, embedding ESG fundamentals into business operations



For further information on the Society for Knowledge Economics – refer [www.ske.org.au](http://www.ske.org.au)

For further information on the Business Reporting Leaders Forum – refer to [www.ske.org.au/BRLF](http://www.ske.org.au/BRLF)  
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